United Nations DP/OPS/2014/3

Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
31 March 2014

Original: English

Annual session 2014
23 to 27 June 2014, Geneva
Item 15 of the provisional agenda
Internal audit and oversight

Activity report for 2013 of the Internal Audit and Investigations Group of the United Nations Office for Project Services

Summary

The Director of the Internal Audit and Investigations Group of the United Nations Office for Project Services hereby submits to the Executive Board this activity report on internal audit and investigation services for the year ended 31 December 2013. The response of UNOPS management to this report is presented separately, as per Executive Board decision 2006/13.

Elements of a decision

The Executive Board may wish to:

(a) *Take note of* the annual report of the Internal Audit and Investigations Group for 2013;
(b) *Take note of* the progress made in implementation of audit recommendations more than 18 months old; and
(c) *Take note of* the annual report of the Strategy and Audit Advisory Committee for 2013 (in line with Executive Board decision 2008/37).

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Annexes (*available on the Executive Board website*)

1. Unresolved audit recommendations issued more than 18 months before 31 December 2013

2. Titles of all internal audit reports issued during the year 2013

3. Strategy and Audit Advisory Committee - annual report 2013

4. Reports issued by the Internal Audit and Investigation Group in 2013 relating to preliminary assessments or investigations which resulted in a finding of misconduct

I. Introduction

1. The Internal Audit and Investigations Group (IAIG) is pleased to provide the Executive Board with the annual report on UNOPS internal audit and investigation activities for the year ended 31 December 2013. This report contains details pursuant to Executive Board decisions 2008/13 and 2012/18, specifically: (a) a table displaying unresolved audit recommendations by year and category; (b) an explanation of findings that remained unresolved for 18 months or more; and (c) titles of all internal audit reports issued during the year.

2. The IAIG Director reports to the Executive Director of UNOPS and assists him with his accountability function. In this regard, IAIG provides assurance, offers advice, recommends improvements and helps to enhance the risk-management, control and governance systems of the organization. IAIG also seeks to promote and support accountability by conducting investigations into reports of violations of applicable rules, regulations and administrative or policy directives. Additionally, IAIG endeavours to support management in the application of UNOPS general policies and objectives, as described in the UNOPS strategic plan 2010-2013 (DP/2009/36).

3. IAIG continued to interact with the UNOPS Strategy and Audit Advisory Committee during 2013. In accordance with Executive Board decision 2008/37, the annual report of the Strategy and Audit Advisory Committee for 2013 is attached as annex 3 to this report.

II. Role and functions of the Internal Audit and Investigations Group

A. Mandate, functions and standards

4. The mandate for internal audit and investigations is described in the UNOPS financial regulations and rules (Executive Board decision 2012/5) as revised, effective 1 January 2012. Regulations 6.01 to 6.03 and rules 106.01 to 106.03 define the role of the UNOPS IAIG.

5. The scope, responsibility, accountability and standards of UNOPS IAIG are contained in its charter, issued by the Executive Director as Organizational Directive No. 25. In line with the recommendations of the external assessment of the internal audit function in 2012, the charter was revised with effect from 15 December 2013. The main change refers to the submission of the IAIG annual activity report directly to the Executive Board, to reflect its organizational independence.

6. The role of IAIG is further defined in Organizational Directive No. 2, "UNOPS Accountability Framework and Oversight Policies," and Organizational Directive No. 15 (Addendum 2), "UNOPS Global Structure". In addition to providing internal audit services to UNOPS, IAIG leads the Executive Director's investigations into alleged fraud, corruption, waste of resources, abuse of authority or other misconduct and violations of UNOPS regulations, rules and administrative or policy directives.

B. Coordination with the United Nations Board of Auditors and other United Nations oversight bodies

7. IAIG coordinated its internal audit work with, and make its results available to, the United Nations Board of Auditors. Furthermore, the Group's annual planning process included consultation with the United Nations Board of Auditors.

8. IAIG continued to coordinate its activities with the United Nations Office of Internal Oversight Services, the Representatives of Internal Audit Services of

the United Nations Organizations (UN-RIAS) and the Joint Inspection Unit (JIU).

III. Approved annual internal audit work plan for 2013

9. The primary aims of the 2013 work plan were to evaluate and improve the effectiveness of risk-management, control and governance processes; and provide the Executive Director with the assurance that internal controls and procedures are functioning as intended. The work plan contained a detailed discussion of the planning approach, objectives, risk assessment, scope, nature of audit services and operating budget.

A. Risk-based internal audit plan

10. An audit risk assessment identifies and prioritizes potential audit areas that pose the greatest risk to the organization. This is achieved through reliance on the risk-management system which has been put in place by management. A risk assessment enables internal audit resources to be allocated to those areas that are most critical to the organization's success in reaching its goals. The result is documented in a risk-based internal audit work plan.

11. In preparing its work plan for 2013, IAIG refined the risk assessment model used in earlier years to ensure consistency between internal audit priorities and the goals of UNOPS management. IAIG relied on the existing components of the risk-management system mandated in UNOPS financial regulation 4.01 and financial rules 104.01 and 104.02. Further, UNOPS is in the process of putting in place a structured, comprehensive organization-wide system of risk management. When fully operational, this system will further inform the audit risk assessment.

12. The 2013 audit work plan, based on the audit risk assessment, acknowledged the geographical diversity of UNOPS operations worldwide and included both compliance and performance-based audits.

B. Progress on implementation of annual work plan

13. All the internal audits planned for 2013 were completed and final reports issued during the year (see table 1).

Table 1. Status of implementation of work plan as at 31 December 2013

	IAIG internal audits	Project audits	Total
Number of audits planned in 2013	8	0*	8
Total audit reports issued	8	13	21
Total audits carried over to 2014	Nil	Nil	Nil

* *as requests for project audits are client driven.*

IV. Highlights of 2013 audit activities

14. As noted in table 1, IAIG released 21 reports during 2013, compared with 34 reports during 2012. This was due to the reduction in the number of reports issued for project audits during the year, as these audits are based on client requests and reporting requirements, as per project agreements.

15. There are two separate categories, reflecting the differences in approach:

(a) Internal audits conducted by IAIG (eight reports);

(b) Project audits conducted under the supervision of IAIG by professional auditing firms or consultants to fulfil project reporting requirements (13 reports).

16. The 21 audit reports issued in 2013 contained 135 audit recommendations. Of these, 87 pertain to internal audit reports (table 3) and 48 to project audit reports (table 7).

A. Internal audits conducted directly by the Internal Audit and Investigations Group

Internal audit reports issued

17. During the year ended 31 December 2013, eight internal audit reports were issued by IAIG and submitted to the UNOPS Executive Director, as detailed in table 2.

Table 2. List of internal audit reports issued by the Internal Audit and Investigations Group in 2013

Organizational unit or function	Rating*
Internal audit of Bangkok Cluster	Partially satisfactory
Internal audit of Congo Operational Hub	Partially satisfactory
Internal audit of Iraq Operational Hub	Satisfactory
Internal audit of Argentina Operational Hub	Satisfactory
Internal audit of vendor management at UNOPS	Partially satisfactory
Internal audit of the process for engagement of individual contractors at UNOPS	Satisfactory
Internal audit of travel management at headquarters	Partially satisfactory
Internal audit of asset management at UNOPS	Partially satisfactory

** As per the harmonized definitions adopted by the internal audit services of UNDP, UNFPA, the United Nations Children's Fund, UNOPS and the World Food Programme, effective 1 January 2010:*

- *a "satisfactory" rating means "internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity;" and*
- *a "partially satisfactory" rating means "internal controls, governance and risk-management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity."*

Analysis of internal audit recommendations issued in 2013

18. Pursuant to Executive Board decision 2008/13, IAIG analyzed the recommendations issued by level of importance, cause and frequency of occurrence in a functional area.

19. The number of internal audit recommendations issued decreased from 180 in 2012 to 87 in 2013 and as a result, the average number of recommendations by audit report decreased from 15 in 2012 to 11 in 2013. This is in line with the advice of the Strategic Audit and Advisory Committee and the increased focus of internal audit on the more significant risks and systemic issues.

Level of importance of audit recommendations related to IAIG audits

20. Of the 87 recommendations issued, 52 (60 per cent) were considered of high importance[1] and 35 (40 per cent) of medium importance, as shown in table 3.

Table 3. Categorization of audit recommendations, by level of importance

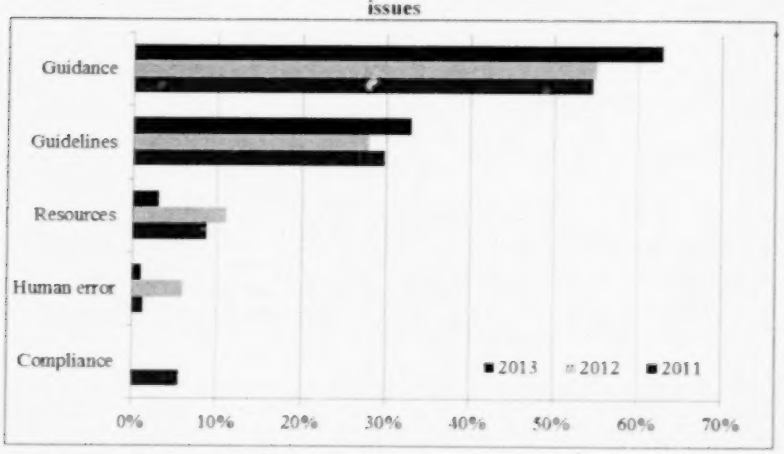
Level of importance	Number of recommendations			Percentage of total		
	2011	2012	2013	2011	2012	2013
High	53	59	52	35	33	60
Medium	93	121	35	62	67	40
Low	5	0	0	3	-	-
Total	**151**	**180**	**87**	**100**	**100**	**100**

Cause of audit issues

21. The definition of causes of audit issues was established in document DP/2007/38,[2] whereby IAIG identified the root cause and the underlying control objective for each audit issue. In 2011, IAIG concluded that lack of compliance is an outcome of an underlying root cause, rather than a cause of an audit issue.

22. Thus, the two main root causes of audit issues raised in 2013 were inadequate guidance (63 per cent) and guidelines (33 per cent), as shown in figure 1. The other causes (insufficient resources and human error) accounted for 3 per cent and 1 per cent of the audit recommendations respectively.

Figure 1. Internal audit recommendations, by cause of audit issues



[1] Definitions (as per document DP/2007/38):

High: action considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).

Medium: action considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).

Low: action considered desirable and should result in enhanced control or better value for money.

[2] Definitions (as per document DP/2007/38):

Compliance: failure to comply with prescribed UNOPS regulations, rules and procedures.

Guidelines: absence of written procedures to guide staff in performing their functions.

Guidance: inadequate or lack of supervision by supervisors.

Human error: mistakes committed by staff entrusted to perform assigned functions.

Resources: insufficient resources (funds, skill, staff) to carry out an activity or function.

Frequency of occurrence of audit recommendation by functional area

23. The frequency of audit recommendations by functional area is displayed in figure 2. Most recommendations pertained to human resources (25 per cent), project management (24 per cent) and general administration (23 per cent), followed by procurement (15 per cent), corporate strategic management and leadership (8 per cent) and finance (5 per cent). It should be noted that this distribution by functional area was driven by the audit scope as identified in the risk assessment conducted for each engagement.

Figure 2. Internal audit recommendations by functional area

Key areas of improvement identified in 2013 internal audit reports

24. Supplementing the previous analysis, table 4 shows the number of recommendations by type of objective[3] and functional area. Recommendations on operational issues (44 per cent) and compliance (39 per cent) were highest, followed by those addressing strategic issues (11 per cent). A brief summary of the key issues raised in the audit recommendations follows table 4.

Table 4. Number of recommendations issued in 2013 by type of objective

Functional Area	Operational	Compliance	Strategic	Reporting	Total	Per cent of total
Human resources	12	8	1	1	22	25
Project management	7	11	2	1	21	24
General administration	6	9	2	3	20	23
Procurement	6	6	1	0	13	15
Corporate strategic management and leadership	3	0	4	0	7	8
Finance	4	0	0	0	4	5
Total	**38**	**34**	**10**	**5**	**87**	**100**
Percentage of total	**44**	**39**	**11**	**6**	**100**	

[3] As per entity objectives mentioned in "Enterprise Risk Management – an integrated framework" (1994), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Operational matters

25. In the area of project management, recommendations were made to: (a) strengthen the engagement acceptance process by having the implementation analysis note cleared by the appropriate authority before signature of any legal agreement; (b) implement risk-mitigation measures as decided by the engagement acceptance committee; (c) optimize the way projects are set up in ATLAS such that maximum benefit is made of its functionalities for management control and financial oversight; (d) review and close all projects with no operational activity in the past year, and complete the financial closure of operationally closed projects within 18 months as per the financial rules and regulations; (e) ensure that revenue is recognized as per services delivered, not as per invoicing, in accordance with International Public Sector Accounting Standards (IPSAS); (f) ensure that risk increment guidelines are prepared and charged to the projects; (g) strengthen management system regarding bank guarantees by periodic reconciliation with project managers to ensure completeness and conduct periodic physical verification of bank guarantees; and (h) strengthen the engagement assurance process and ensure that project handover is carried out properly. A combination of guidelines, tools and more effective monitoring should help to address the issues raised.

26. In the area of procurement, recommendations were made to: (a) clean up the vendor database to ensure that it does not include vendors which appear on the Office of Foreign Assets and Control (United States) list of specially designated nationals, or firms and individuals deemed ineligible on the United Nations Financial Sanctions, United Nations Procurement Division and World Bank lists; (b) institute an appropriate control mechanism so that applications for vendor approval are sent to corporate headquarters for approval/creation by individual projects, only after due review by the procurement officer at the operations centre level; (c) maintain a database of bidders with key background information about the directors, registration details, address, banking details, etc.; (d) ensure that project bid evaluation committees do not include personnel from the project for which work is being evaluated; (e) maintain confidentiality of the composition of the project bid evaluation; (f) ensure that engineers' estimates for all projects are properly documented and centrally finalized at operations centre level by a review committee/panel approved by the procurement authority; and (g) ensure that when procurement is being carried out in response to a client request, submissions associated with that request should be unified, not split between the various component suppliers.

27. In the area of human resources, recommendations were made to: (a) establish a monitoring system to justify payments to home-based individual contractors for the time spent in the home country; (b) create a systems integration action plan for the information and communications technology (ICT) tools used in the recruitment of individual contractors; (c) consider implementing an electronic signature software tool to reduce the organization's reliance on paper and manual processes; (d) develop benchmarks and key performance indicators for the time taken in the recruitment and selection process for more effective monitoring and control of the efficiency of the Individual Contractor Agreement (ICA) process; (e) ensure that background checks are performed in all high-risk cases of ICA engagement before offer letters are sent to the candidates; (f) develop an ICT tool for online approval of request for award which is linked with the delegation of authority; (g) make more effective use of the roster system for the engagement of individual contractors and consider making rosters for shortlisted candidates; and (h) revise the template for the ICA contract document, such that all essential information is captured in one page, including the signatures of both the hiring manager and the ICA holder.

28. In the area of asset management, recommendations were made to: (a) ensure that materiality analysis is performed on the threshold applied by UNOPS on assets in the light of its adoption of IPSAS and the change of corporate policy on the management of assets in December 2012; (b) provide guidance to UNOPS personnel responsible for managing items with an acquisition value of less than $2,500; (c) ensure that the asset details in the asset module are periodically reviewed and verified with the general ledger, to ensure they agree for financial reporting purposes; and (d) structure training programmes to address the skills needed.

29. For travel, recommendations were made to: (a) consider reducing ticketing costs by improving the planning of travel through quarterly travel plans for all headquarters units; (b) ensure that any requests for official duty travel not included in approved quarterly travel plans (ad hoc travel) are submitted for the approval of the respective competent authority as per Organizational Directive 11; (c) review the existing travel structure at headquarters; (d) develop guidelines for price ceilings based on an analysis of frequently travelled destinations; (e) analyze the key drivers of the differences in pricing on major routes and consider negotiations with the principal carrier; and (f) ensure that travel processes are supported by an appropriate electronic platform to generate travel requests and prepare travel authorizations.

Compliance matters

30. Recommendations to ensure better compliance with policies and procedures were made in the majority of the reports and covered most functional areas. The most significant recommendations related to: (a) compliance with delegation of authority; (b) enhancing systematic procurement planning and monitoring of its implementation; (c) incorporating confirmation of compliance with the rules and regulations in the standard format provided to clients for pre-selection cases for individual contractors, and improving compliance with the procedures for engagement of individual contractors; (d) ensuring that formal handover notes are prepared and documented for knowledge retention, and that due diligence is exercised in approval of clearance forms; and (e) improving documentation of procurement and project management cases. More thorough guidance and supervision by management, together with better training, should address the points raised.

Strategic matters

31. Attention was called to matters that could impact the achievement of strategic objectives, organization-wide or at the level of regional office or operations/project centre.

32. In the area of corporate strategic management and leadership, management's attention was drawn to the need to: (a) draw up terms of reference for operational hubs, reiterating their scope and jurisdiction as per Organizational Directive 15 (addendum 2); (b) prepare a detailed work plan for implementing the business strategy envisaged for the operational hubs; (c) establish a service agreement regarding costing of operational hub activities with other project centres; and (d) develop suitable guidance for the planning and setting up of a new office in a structured manner.

Reporting matters

33. Recommendations were made to: (a) ensure that project data are accurate and updated on a timely basis; (b) centralize monitoring of compliance with reporting requirements; and (c) use centralized information to assess engagement performance as part of periodic engagement assurance. In the area of travel, recommendations were made to ensure that expenditure reports are periodically generated and reviewed as necessary. Such reports would cover the sectors most travelled, airlines most used, average price of tickets, split of

expenditures per airline and savings assessment reports for carbon emission for each quarter.

B. Projects audits

Single audit principle

34. IAIG continues to uphold the United Nations "single audit principle" as detailed in the UNOPS report on internal audit and oversight in 2007 (DP/2008/21).

35. While management is responsible for meeting the requirements of project agreements, IAIG supports management efforts in fulfilling the requirements as per the audit clauses in these agreements, where present. For that purpose, IAIG engages third-party professional auditing firms to conduct these audits. All the professional firms used have been pre-qualified by UNOPS, and adhere to the terms of reference approved by IAIG. All audit reports prepared by such firms are assessed for quality by IAIG before issuance.

Establishment of a professional services contract with an audit firm

36. Effective 1 January 2013, IAIG has established a three-year professional services contract with a single audit firm. It is envisaged that this will lead to: improved quality of audit reports through consistency of approach and knowledge retention; better understanding of UNOPS operations by one audit firm; and simplification of the process for engaging a firm for project audits. Such improvements are particularly important given the recent move to public disclosure of audit reports. Reduced audit costs and improved timeliness in reporting are also anticipated.

Internal audit reports issued for projects

37. During the year ended 31 December 2013, 13 audit reports relating to specific projects were issued by IAIG and submitted to the UNOPS Executive Director. Bearing in mind the single audit principle, these audits were conducted by IAIG with the assistance of audit firms.

38. As shown in table 5, a majority of the 13 audit reports for projects issued in 2013 provided both an audit opinion on the financial statement of the project and a rating of the internal control environment, according to the requirements of the partner and primary stakeholder(s) concerned.

Table 5. Number of project audit reports issued, 2011-2013

	2011	2012	2013
Audit reports issued expressing an opinion on the financial statement and providing a rating of the internal control environment	15	16	12
Audit reports issued expressing an opinion on the financial statement only	1	1	1
Audit reports issued providing a rating of the internal control environment only	0	1	0
Total	**16**	**18**	**13**

39. As shown in table 6, the proportion of project audits with an unqualified opinion on their financial statements has steadily improved, from 81 per cent in 2011 to 88 per cent in 2012, and to 92 per cent in 2013. The progressive increase in the number of unqualified reports reflects the improvement in the quality of financial reports produced by UNOPS.

40. The proportion of project audits with a "satisfactory" rating for internal controls has steadily increased, from 47 per cent in 2011 to 59 per cent in 2012,

and to 67 per cent in 2013. There were no project audits with an "unsatisfactory" rating for internal controls.

Table 6. Summary of project audit opinions and ratings of internal controls for project audits, 2011-2013

Type of opinion or rating	Number of audit reports			Percentage of total		
	2011	2012	2013	2011	2012	2013
Audit opinion on financial statement of project						
Unqualified opinion	13	15	12	81	88	92
Qualified opinion	3	2	1	19	12	8
Total	**16**	**17**	**13**	**100**	**100**	**100**
Rating of overall level of internal control						
Satisfactory	7	10	8	47	59	67
Partially satisfactory	8	7	4	53	41	33
Unsatisfactory	0	0	0	0	0	0
Total	**15**	**17**	**12**	**100**	**100**	**100**

Financial impact of project audit findings in 2013

41. The Executive Board, in decision 2010/22, requested that information on the financial impact of audit findings be incorporated in future reports. For 2013, the cumulative financial impact of project audit reports with a qualified opinion amounted to $41,821 (0.04 per cent of the total audited project expenditure of $113.64 million).

Project audit recommendations issued in 2013

42. The 13 project audit reports issued generated 48 audit recommendations (compared to 139 audit recommendations in the 18 audit reports issued in 2012). This was due to the reduced number of audit reports issued during the year and the increased focus of internal audit on the more significant risks and systemic issues. These recommendations are analyzed by importance, cause and frequency of occurrence in a functional area.

Level of importance of audit recommendations related to project audits

43. As seen in table 7, the proportion of high-rated audit recommendations increased slightly from 13 per cent in 2012 to 19 per cent in 2013. However the absolute number of high-rated recommendations was lower in 2013 (nine) compared to 2012 (18).

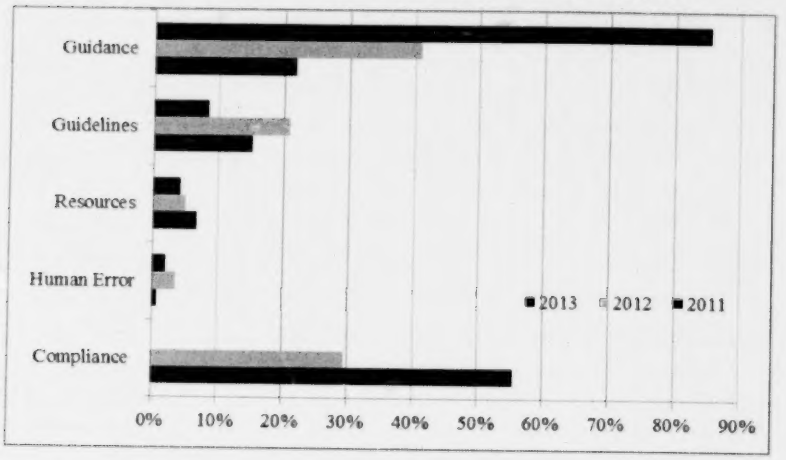
Table 7. Categorization of project audit recommendations by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2011	2012	2013	2011	2012	2013
High	16	18	9	14	13	19
Medium	85	98	38	75	70	79
Low	12	23	1	11	17	2
Total	**113**	**139**	**48**	**100**	**100**	**100**

Cause of audit issues

44. As shown in figure 3, the main causes of audit issues in the project audit reports were inadequate guidance, which increased from 41 to 85 per cent[4]; inadequate guidelines, which decreased from 21 per cent in 2012 to 8 per cent in 2013; resources, which decreased from 5 per cent in 2012 to 4 per cent in 2013; and human error, which decreased from 4 per cent in 2012 to 2 per cent in 2013.

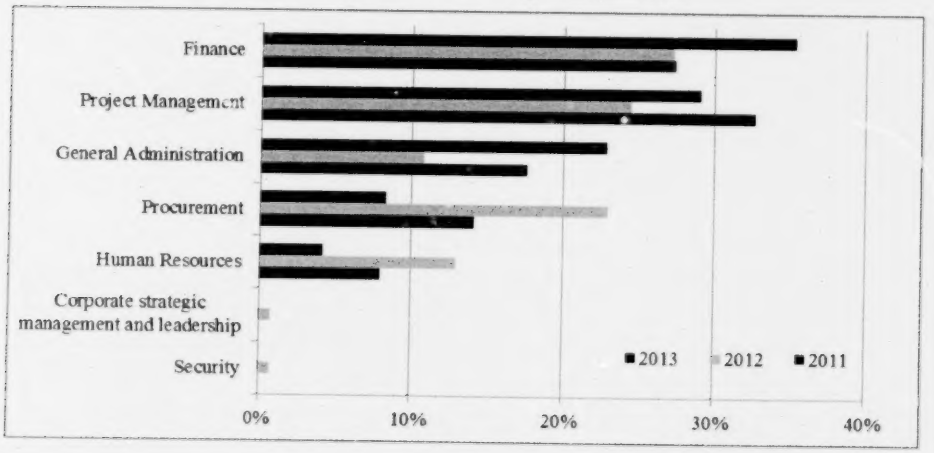
Figure 3. Project audit recommendations by cause of audit issues



Frequency of occurrence of project audit recommendations by functional area

45. The frequency of audit recommendations by functional area, displayed in figure 4, shows that most recommendations pertained to finance (35 per cent), project management (29 per cent) and general administration (23 per cent), followed by procurement (8 per cent) and human resources (4 per cent).

Figure 4. Project audit recommendations by functional area



[4] Definitions (per document DP/2007/38):
Compliance: failure to comply with prescribed UNOPS regulations, rules and procedures.
Guidelines: absence of written procedures to guide staff in performing their functions.
Guidance: inadequate or lack of supervision by supervisors.
Human error: mistakes committed by staff entrusted to perform assigned functions.
Resources: insufficient resources (funds, skill, staff) to carry out an activity or function.

Key areas for improvement identified in 2013 project audit reports

46. These include:

(a) *Project/programme management*. Enhance compliance with provisions of Financing Agreement and Management Service Agreement, accelerate implementation of project activities, improve project work planning, ensure adequate project oversight by the Project Steering Committee and Budget Committee, ensure that project budget expenditure is timely monitored, and ensure that client reports are prepared in a timely manner;

(b) *Finance*. Ensure that project budgeting is based on recent information, that cash flow is properly monitored, that the correct chart of accounts is used, that funds are committed to make payments which are eligible as per project agreements, and that expenditures are properly supported by adequate documentation;

(c) *Procurement*. Ensure that contract terms are adhered to and that documentation of procurement activities meets the requirements of the procurement manual;

(d) *Human resources*. Ensure compliance of individual contractor engagements as per organizational guidelines and that documentation is complete;

(e) *General administration (asset management)*. Ensure compliance with documentation requirements and asset transfer and monitoring guidelines on project asset management.

C. Improvements to the UNOPS internal control system

47. In 2013, management introduced further measures to strengthen the internal control system. These improvements were taken into account during the preparation of the audit work plan.

48. Strengthening the internal control system is an ongoing process. During 2013, management either revised or issued new policies and procedures in the following areas: (a) issue of an organizational directive on environmental management of infrastructure projects; (b) issue of an organizational directive on determining vendor ineligibility and sanctions; (c) revision of the UNOPS client pricing policy with effect from 1 July 2013; (d) addendum to UNOPS global structure; (e) revision of the charter for IAIG; (f) revision of policy on ICAs; (g) revision of personnel performance policy; (h) issue of policy specifying grant support instructions; (i) issue of policy on separation from service of staff members; (j) issue of policy on rest and recuperation; (k) issue of policy on claim reporting obligation of UNOPS personnel; (l) issue of policy on management and use of vehicles; (m) issue of policy clarifying approval process for visa support letters; (n) revision of policy on vendor review procedures; (o) revision of policy on recruitment; (p) revision of policy on entitlement travel; (q) revision of policy on hospitality; (r) revision of policy on renewal of fixed-term appointments; and (s) revision of working hours and leave policy for individual contractors.

49. Other initiatives taken by management included: (a) based on the extensive midterm review in 2012, the development of the UNOPS strategic plan 2014-2017, which the Executive Board endorsed at its annual session of 2013; (b) International Organization for Standardization (ISO) standard ISO-14001 certification for the UNOPS infrastructure practice; (c) achievement of the Chartered Institute of Purchasing and Supply Silver Certificate in sustainable procurement; (d) certification by APMG-International as an Accredited Consulting Organization and Accredited Training Organization, and by the Project Management Institute as a Registered Education Provider and Registered Consultant; (e) an external assessment against the European Foundation for Quality Management excellence model, resulting in an award at the four-star

level of a "Recognised for Excellence" rating; and (f) implementation of an improved approach to costing and pricing following the principles of full and fair cost recovery.

50. The UNOPS internal control system is supported by corporate tools and systems, which were further enhanced in 2013. These include: (a) upgrading the business intelligence platform; (b) introducing a new tool for management of internal audit recommendations; (c) introducing a new tool for managing ICA payments; (d) upgrading the system to manage the business lead process; (e) introducing a new system for managing submissions to the Headquarters Contracts and Property Committee; (f) upgrading the global annual leave management system; (g) upgrading the project closure tool; (h) upgrading the global personnel recruitment system; and (i) initiating a process to identify and establish a new enterprise resource planning system.

V. UNOPS accountability framework

51. In accordance with the UNOPS accountability framework and oversight policies, the IAIG Director reports to the Executive Board on the resources available and required for the implementation of the accountability framework.

52. The pillars of the UNOPS accountability framework and oversight policies that are internal to the organization include IAIG, the Strategy and Audit Advisory Committee, the Ethics Officer, the Office of the General Counsel, the Appointment and Selections Panel, the Appointment and Selections Board, the Headquarters Contracts and Property Committee, the Balanced Scorecard system and the implementation of UNOPS organizational directives and administrative instructions.

53. The fundamental pillars of the UNOPS accountability framework and oversight policies that are external to the organization include the Executive Board, the United Nations Board of Auditors, JIU, the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee of the General Assembly.

VI. Disclosure of internal audit reports

54. IAIG complies with Executive Board decisions 2008/37 and 2012/18 and the procedures approved therein regarding disclosure of internal audit reports.

55. Furthermore, during 2012, the Executive Board in decision 2012/18:

> *16. Decide[d] that the Director of Internal Audit (...) will make publicly available the executive summaries of all internal audit reports issued after 30 June 2012;*
>
> *17. Decide[d] that the Director of Internal Audit (...) will make publicly available all internal audit reports issued after 1 December 2012;*
>
> *19. Decide[d] that, before disclosing an internal audit report that contains findings related to a specific Member State, the Director of Internal Audit will provide a copy of the report to the concerned Member State (...).*
>
> *20. Request[ed] the Director of Internal Audit (...) to include in their annual reports to the Executive Board the titles of all internal audit reports issued during the year (...) and to include in their 2014 annual reports an analysis of experience gained from public disclosure to date.*

56. Accordingly, IAIG has published, on the UNOPS public website, the executive summaries of internal audit reports issued after 30 June 2012 and the complete internal audit reports issued after 1 December 2012.

57. UNOPS has set up a remote access system which has been operational since November 2011. Additionally, since November 2011, UNOPS has been

publishing on its public website all audit reports dealing with functional and thematic areas, as well as the list of all audit reports issued since 2008.

58. During 2013, UNOPS received one request from the European Union to access an internal audit report. Since the report was issued in December 2011, remote access to the internal audit report was provided to the client as per the then existing disclosure policy.

59. The IAIG experience with the public disclosure of audit reports has been positive, as it leads to enhanced transparency and accountability and to timely action by management on audit recommendations. It has also continued to raise the standard of audit reports as a result of the increased quality assurance efforts required by internal auditors.

VII. Advisory services

60. Advisory services cover a wide range of issues relating to internal control concerns, policies, organizational directives, business processes, proposed agreements and specific issues that management may request IAIG to look into. It is important to underscore that IAIG acts only in an advisory capacity and does not assume management responsibilities by participating in the implementation of any procedure.

61. During 2013, IAIG continued to provide advisory services which included providing comments on policies and procedures, support to management on ISO-14001, the corporate credit card system and risk-management activities. IAIG has also participated in the UNOPS Information and Communication Technology Advisory Board as an observer.

62. During 2013, IAIG organized four capacity-building webcasts for UNOPS personnel on project audits, asset management, vendor management and vendor review committees.

63. In addition, IAIG developed a control self-assessment tool to support managers in monitoring compliance with key internal controls in functional areas such as project management, finance, procurement, human resources, general administration (including asset management) and security. This will assist management in the achievement of one of the "must wins" required to accomplish the goals of the strategic plan 2014-2017, i.e., optimized business processes.

64. In addition to the planned audits, during 2013 IAIG produced an advisory report on the application at UNOPS of United Nations Secretariat administrative instruction ST/AI/2003/8. The report dealt with the engagement of individual contractors who were drawing pensions from the United Nations Joint Staff Pension Fund but were paid fees which was not in accordance with the Secretariat instruction.

65. Furthermore, IAIG continued to assist management in reviewing proposed project agreements containing audit clauses, including developing a template for a standard audit clause (which was made available on the intranet) in order to ensure that such clauses are in accordance with Executive Board decisions and UNOPS financial regulations and rules.

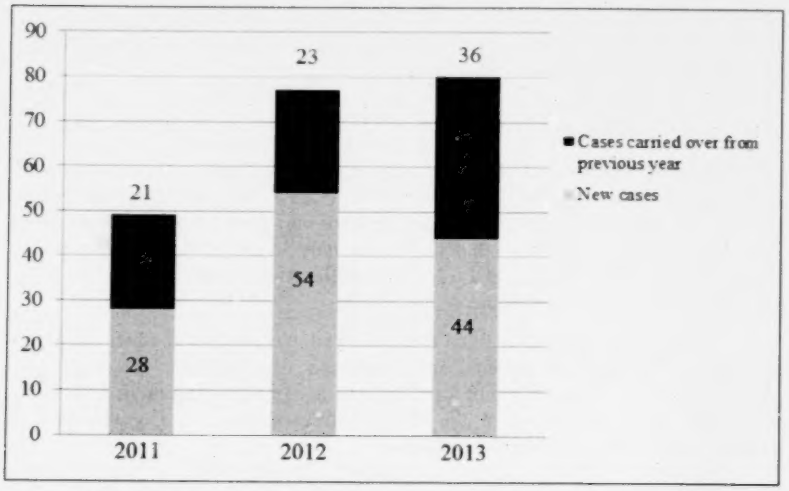
VIII. Investigations

66. IAIG is the sole entity in UNOPS responsible for conducting investigations into allegations of fraud, corruption, abuse of authority, workplace harassment, sexual exploitation, retaliation and other acts of misconduct.

A. Complaint intake

67. In 2013, IAIG received 74 complaints, 44 of which became cases and 30 were for information.[5] This was a decrease from 2012, when IAIG had 88 complaints (54 cases, and 34 for information). In addition, 36 cases were carried over into 2013: one from 2009; two from 2010; five from 2011; and 28 from 2012 (figure 5).

Figure 5. Number of cases, 2011–2013



68. Fifty-nine per cent of the cases opened in 2013 were referred by management or personnel; 11 per cent came through the IAIG fraud hotline or the UNOPS harassment hotline; and 30 per cent came via other means (i.e., external organizations such as the medical insurance provider).

69. Of the 44 cases opened in 2013, almost half (20 cases or 45 per cent) involved some type of alleged fraud or financial irregularities (procurement fraud, entitlement fraud, theft, embezzlement and misuse of UNOPS resources). The total financial value of proven fraud or misuse was $85,758 ($28,577 in medical fraud, $57,181 misused funds), less than 0.1 per cent of UNOPS total annual resources.[6] Another 30 per cent (13 cases) involved external compliance (medical insurance fraud and violation of local laws). In addition, 20 per cent (nine cases) involved harassment and abuse of authority, and 5 per cent (two cases) related to a conflict of interest (see figure 6).

[5] 'For information' complaints require review and follow-up work, but may not evolve into a full case.

[6] Definitions:

Fraud and financial irregularity: bid manipulation, collusion, corruption, bribes/kickbacks, entitlement fraud, procurement irregularities, waste/misuse of funds, forgery.

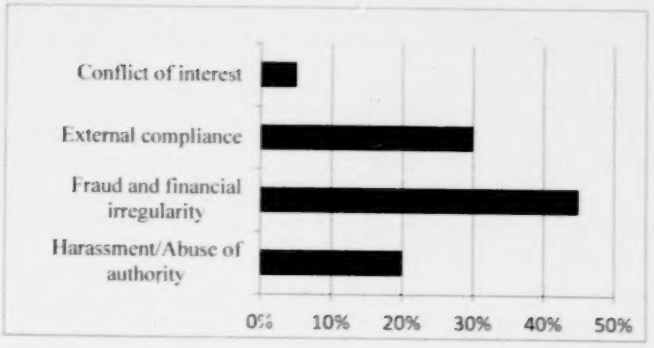
Harassment/abuse of authority: hostile work environment, sexual harassment and exploitation, assaults/threats, nepotism.

Conflict of interest: gifts/awards, non-compliance with financial disclosure, favouritism, external activities (employment, membership on outside boards).

External compliance: violation of local laws, violation of privileges and immunities, medical insurance fraud.

Whistle-blower retaliation: retaliatory action against a whistle-blower or a participant in protected activity (audit or investigation).

Figure 6. Types of cases opened in 2013



B. Outcome of investigations

70. An initial review of complaints received is undertaken to determine whether the allegations fall within the IAIG mandate or jurisdiction. If they do, a preliminary assessment is conducted. If this assessment reveals that wrongdoing may have occurred, IAIG conducts a formal investigation. If the allegations are substantiated, IAIG submits an investigation report to the human resources legal officer for appropriate action.

71. In 2013, 51 cases were closed, reducing the open caseload from 80 to 29 cases, a reduction of 64 per cent (see table 8).

Table 8. Closing of investigation complaints in 2013

	Number of cases	Per cent
Cases carried over from 2009	1	1
Cases carried over from 2010	2	3
Cases carried over from 2011	5	6
Cases carried over from 2012	28	35
Cases received in 2013	44	55
Total caseload in 2013	**80**	**100**
Cases closed with no further action necessary		
• after initial review	17	33
• after preliminary assessment	1	2
• after investigation	5	10
Total cases closed with no further action necessary	***23***	***45***
Cases closed recommending further action		
• after initial review	7	*14*
• after preliminary assessment	3	*6*
• after investigation	18	35
Total cases closed recommending further action	***28***	***55***
Total cases closed in 2013	**51**	**100**
Cases carried over to 2014	**29**	

72. As a result of the initial review or the preliminary assessment, 18 cases (35 per cent of cases closed) were found to be unsubstantiated and did not require further investigation. Five more were closed after investigation without referral to the human resources legal officer (10 per cent of cases closed).

73. Eleven cases were referred to the Vendor Review Committee in 2013 for consideration of further action (eight from cases closed in 2013, along with three others from prior years). At the time of writing, the Vendor Review Committee had sanctioned four vendors.

74. Eleven cases were referred to the human resources legal officer, all of which took place after formal investigation. In these cases, the allegations were substantiated and included the following:

(a) harassment or abuse of authority (one case);

(b) fraud or financial irregularity (four cases);

(c) external compliance - medical insurance fraud (six cases).

75. IAIG issued 37 reports based upon these 11 cases. Since some cases involved multiple subjects, more than one report may have been issued in a single case. IAIG then recommended disciplinary action against 38 personnel members. One of the 38 personnel members worked operationally and was supervised by another United Nations agency.

76. Of those 38 personnel:

(a) two individuals were disciplined;

(b) four individuals separated from UNOPS before the administrative process was completed. Since the United Nations Dispute Tribunal does not permit disciplinary actions for those who have separated from the Organization, the matter will be addressed if and when the individuals are considered for future UNOPS positions;

(c) seven cases are pending against 32 individuals. One of these cases involved 27 individuals in a medical fraud scheme. Five of the 27 implicated individuals agreed to make restitution for the wrongfully obtained funds. Another individual is employed under UNOPS contract but works operationally for another United Nations organization, which has prolonged the administrative process for this case.

77. In addition, in 2013 management action was taken against four individuals whose cases originated prior to 2013. Three left before the administrative process was completed, so the matter will be addressed if and when the individuals are considered for future UNOPS positions. For one of those individuals, a step-reduction and a training course were imposed.

78. In addition to administrative recommendations, IAIG suggested a referral to national authorities in four cases. One of these cases involved 27 different individuals, as mentioned in paragraph 76(c) above.

C. Strengthening the investigative capacity

79. Due to the continuing trend of rising numbers of complaints received, the office transferred a vacant internal auditor post (P-3 level) to investigations. In March 2013, UNOPS added a second investigator to this group and now has two dedicated professionals who are supported by an investigative assistant. IAIG continues to rely upon consultants for additional support.

80. IAIG continues to focus its limited resources on serious cases and refers less serious matters to the appropriate office. For instance, IAIG meets on a regular basis with the Human Resources Practice Group for harassment and abuse of authority cases. Together, the offices attempt to utilize alternative dispute resolution methods, such as mediation. IAIG also works closely with the

legal officers and senior managers, who may undertake initial reviews of allegations under the guidance of IAIG.

81. IAIG has been an integral part in the adoption and implementation by UNOPS of the Vendor Sanctions Regime (Organizational Directive 41), which went into effect this year and is in accordance with the model policy framework on vendor sanctions. The new vendor sanctions policy strengthens the UNOPS zero-tolerance position vis-à-vis vendors engaging in proscribed practices such as fraud, corruption, collusion, obstruction and unethical and coercive practices. IAIG serves in an advisory capacity to the Vendor Review Committee. In 2013, IAIG submitted 11 cases to the Committee for consideration of sanctions against numerous vendors, which have resulted in action against four vendors to date.

82. IAIG issued its second annual confidential survey regarding integrity, ethics and anti-fraud. The organization is committed to deterring, detecting and preventing fraud and other misconduct in the performance of its mission and in the conduct of its operations. The survey provided valuable insight into areas of fraud susceptibility, corporate culture and actual impact of existing fraud and risk management programmes. The results of the survey will be incorporated into future training and other preventative measures.

83. In 2013, IAIG began to fully implement its automated case management system. This new system facilitates the management and coordination of its cases, but it also allows IAIG to more comprehensively document action taken to investigate allegations, to allow more meaningful analysis of case data and to draw from investigations lessons that may be relevant to UNOPS risk-management processes.

84. IAIG will also revisit the legal framework for addressing non-compliance with United Nations standards of conduct, working with the Legal Practice Group to consider any changes or updates that could streamline the investigative process.

85. IAIG remains committed to strengthening preventive measures, particularly in the field of fraud. Pursuant to the revised charter of IAIG, its mandate was expanded to include training and fraud prevention. Moreover, IAIG worked closely with the Human Resources Practice Group to hire an external company to perform background reference checks for UNOPS personnel. The purpose of the initiative was to help the organization reduce risks associated with employment by verifying the information and qualifications submitted by candidates upon recruitment. It is anticipated that the service will greatly enhance the integrity of the recruitment process.

86. As part of this endeavour, IAIG worked with the Human Resources Practice Group and the Ethics Officer to develop and introduce a standards of conduct workshop for UNOPS personnel. The workshop is part of proactive efforts by UNOPS to raise awareness on compliance and ethics. The objectives are to help raise the awareness of UNOPS employees on the importance of operating in line with the highest ethical standards, aligning the work UNOPS does with the UNOPS vision, mission and values, and training personnel to spot potential issues and to know where to report concerns or suspicions.

D. Collaborating with others

87. With the objective of enhancing its investigation function, IAIG collaborated with various UNOPS units, namely the Legal Practice Group, the Human Resources Practice Group, the Ethics Office and several regional and country offices. IAIG was able to resolve many of its matters without proceeding into investigation, due to interdepartmental cooperation and support from senior management. At the same time, the advice of IAIG continues to be sought by other groups, as reflected in its "for information only" caseload.

88. IAIG undertook a number of measures to further enhance its capacity to undertake investigations and to exchange fraud intelligence with other investigative units so as to better identify and address wrongdoing that may impact UNOPS. IAIG increased its efforts to collaborate with the investigation offices of other international organizations. For instance, IAIG has been working closely with the other United Nations agencies in the United Nations heads of investigations group to strengthen investigation practices and professionalism by providing a forum for development of policies and procedures. Areas for collaboration include joint investigations, training, resource sharing, exchanging information and providing advice.

89. This collaboration with other investigative bodies has been further strengthened through the signing of cooperation agreements with other organizations. These include agreements on the prevention, detection and investigation of fraud and corruption signed with the World Bank and the Ministry of Foreign Affairs of Norway.

IX. Summary of follow-up of internal audit recommendations

A. Implementation of audit recommendations issued in 2013 and prior years

90. In line with the International Professional Practices Framework for internal auditing, which requires "a follow-up process to monitor and ensure that management actions have been effectively implemented", and in order to address Executive Board decision 2006/13, the annual work plans of IAIG include provision for such follow-up.[7] IAIG has set up an online tool designed to enable managers to report action taken on the status of implementation of audit recommendations, and desk reviews are performed by IAIG on actions taken and information provided thereon.

91. Table 9 shows the outcome, as of 15 January 2014, for all audit recommendations issued between 2005 and 2013. Of the audit recommendations issued in or prior to 2011, 99.8 per cent were implemented, as were 63 per cent of those issued in 2012. The overall implementation rate of audit recommendations issued from 2008 (the year that IAIG started undertaking internal audits) to 2013 was 93 per cent, indicating high responsiveness on the part of management to implementing audit recommendations.

B. Recommendations unresolved for 18 months or more

92. As a result of concerted and proactive efforts by management, the number of audit recommendations issued more than 18 months before 31 December 2013 (on or before 30 June 2012) that remained unresolved was six (2.3 per cent of the total 261 outstanding recommendations). Details, as well as comments on their status, are provided in annex 1.

[7] Framework from Institute of Internal Auditors, Performance Standard 2500 – Monitoring progress.

Table 9. Status as of 15 January 2014 of implementation of audit recommendations issued before 31 December 2013

Number of audit recommendations	2008-2009	2010				2011				2012				2013			Total for 2008-2013
	(total)	IAIG audit	Project audit	SGP + Mine Action audit	Total	IAIG audit	Project audit	SGP + Mine Action audits	Total	IAIG audit	Project Audit	SGP + Mine Action audit	Total	IAIG audit	Project Audit	Total	
Implemented/ closed	1758	275	264	253	792	151	113	365	629	130	66	29	225	5	5	10	3414
as a percentage	*100*	*99*	*100*	*100*	*99*	*100*	*100*	*100*	*100*	*72*	*47*	*78*	*63*	6	10	7	93
Under implementation	1	4	0	0	4	0	0	0	0	50	73	8	131	82	43	125	261
as a percentage	*0*	*1*	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*28*	*53*	*22*	*37*	*94*	*90*	*93*	7
Total	1759	279	264	253	796	151	113	365	629	180	139	37	356	87	48	135	3675
as a percentage	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*

Note: IAIG = Internal Audit and Investigations Group; SGP = Small Grants Programme.

X. Operational issues

A. Resources

93. During the year 2013, the budgeted IAIG staffing included one director (D-1 level), one senior internal auditor (P-5 level), four internal auditors (one P-4 level, one P-3 level and two international ICAs), two investigators (one P-4 level and one P-3 level) and one investigations assistant. All these positions were encumbered as of 31 December 2013. This structure is supplemented by the engagement of third-party professional firms, individual consultants and interns. Further, an editor was engaged for quality assurance of the internal audit reports prior to their issue as final reports.

94. During the year 2013, budgeted expenditure of IAIG was $2.224 million.

B. Involvement with professional bodies and other groups

95. In 2013, IAIG maintained its formal ties with the Institute of Internal Auditors, to whose International Professional Practices Framework it adheres. Furthermore, IAIG actively participated in the seventh annual meeting and in the regular conference calls of UN-RIAS and in the forty-fourth meeting of the broader group, the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions.

96. IAIG also participated in the 14th Conference of International Investigators and in the second informal meeting of the heads of investigations of United Nations organizations.

C. Strengthening the audit function

97. During 2013, IAIG carried out several improvements in its internal policies and procedures. Templates and formats for working papers and audit reports were revised to make them more user-friendly and succinct. A style guide has been prepared to encourage uniformity in reporting standards. A new audit management software package – TeamMate – was implemented, which helped to improve the quality of audit reports and work paper retention and follow-up of audit recommendations through the TeamCentral module.

D. Strategy and Audit Advisory Committee

98. During 2013, the Strategy and Audit Advisory Committee continued to review the annual work plan, budget, regular progress reports and annual report of IAIG. It also provided advice to promote the effectiveness of both internal audit and investigation functions.

99. The Strategy and Audit Advisory Committee annual report for 2013 is contained in annex 3.